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Who Benefits from UCRS— Social Security Coordination

Major changes in the Social Security Act were enacted in 1972 and 1974 which substantially improved retirement benefits, as well as increased the levels of Social Security taxes. Not only was the tax base increased by indexing it to national increases in average wages but retirment benefits were indexed to increases in the cost of living.

The University started to investigate the possibility of coordinating the UC Retirement System in 1974 for several reasons. One was that six of the eight universities with which UC compares faculty salaries and benefits have already coordinated their retirement programs. As the result of higher SS benefits, the gap in retirement benefits favoring other institutions will become larger because SS benefits fully keep up with the rising cost of living while UCRS has been limited to 2%, and SS benefits are tax free while a major part of UCRS income is not. Another consideration was the UCRS funding problems, especially the effect of a serious decline in the stock market on the UCRS investment portfolio.

A major reason why SS is attractive is that it is not a funded system, as are non-federal systems. It is a transfer of payment system under which the benefits of those who have retired are paid by those who are working. As a result, retirees can and do receive benefits substantially in excess of their contributions. The SS Trust Fund is merely a reserve to balance variations in income and payments due to the business cycle.

The "crisis" in SS which has received so much attention in the past couple of years is about whether the level of benefits enacted into law in 1972 and 1974 can be met by the projected higher level of SS taxes. Crucial to this point is the relationship between the number of workers to the number of retirees. The ratio will decrease as the number of retirees increases, especially toward the end of this century. Today there are about three workers for every retiree, and it is heading down to a two to one ratio.

Therefore, an increasing number of SS experts are urging that at least a portion, if not all of SS funding, come out of general revenue taxes, instead of a special payroll tax. Others such as President Ford, are asking for higher tax rates and a higher tax base.

SS taxes are retrogressive since everyone pays the same rate while those with salaries above the tax base (now $15,300) pay a smaller tax rate on total earnings. In addition only wages and salary income are taxed but not income from investments, or corporate profits. The fact that SS may go to general revenue taxes, including the personal income tax, becomes a further consideration in the decision of whether to coordinate: if you are not in the SS system, then you may be taxed for it but not receive the benefits. On the other hand, if Congress follows other recommendations to cover all public employees who are excluded, then you might also be brought into the coordinated plan even if you elect to stay out now.

One of the reasons for the SS "crisis" is that the benefit formula legislated in 1972 over-indexed retirement benefits so as to over respond to inflation. As a result, and depending on assumptions about the future rate of inflation, it is possible that SS benefits could excede a person's working income. The over-indexing may be eliminated in the future or some combination of a modified index and higher taxes may be legislated.

One of the social or political goals of the current policy on SS benefits is to keep lower income workers who have nothing but SS coverage above poverty levels, and off welfare rolls. This leads to retirement benefit levels which give high benefits to those who have lower salaries and consequently have paid less into the SS system.

It is this feature of SS that makes coordination particularly attractive and, in fact, provides windfall benefits to those near retirement age who have little or no SS coverage. As a *general* rule, if those who are near retirement decide to coordinate, they will receive increases in total retirement benefits far in excess of their SS contribution. This becomes a way for a private retirement system to increase benefits exceeding the additional cost to the person, and perhaps to the system, too. (See table in center fold.)

However when a person is faced with making a personal choice of whether to coordinate the decision can be complex. Not only must one make some judgments about the future direction and levels of SS benefits and taxes, but also guesses about future UC employment, possibilities of coverage through other employment, spouse coverage and the potential for future earned income after retirement.

The material the University provided in the "Official Notice" is not particularly helpful in helping you make a decision. In fact some UC economist and law faculty have pointed out that the UC material is extremely difficult to understand. The individual dilemma is compounded by the fact that the choice you make is irrevocable, unless the Regents agree to another election, as permitted by federal law.

Although there has been, at least initially some questioning of the basic decision to coordinate with SS, the main problems have been over some of the terms of the coordination plan, and the way in which the decision was made. The University allowed the appearance of meet and confer but in reality it was a unilateral decision unencumbered by the questions and views of UC employees.

For example, the Universitywide Welfare Committee of the Academic Senate set up a subcommittee to look into and evaluate the coordination proposals. Although this committee had more information and discussions with University representatives than any other body representing employees, they were far from satisfied that they had any real input into the decision.

You Can Change Coordination Vote

If you have voted, and then change your mind before April 23, it is possible to reverse the first vote.

To do this, you should ask the campus personnel office for another ballot. Then be sure to mark it clearly as a second ballot superseding the first. According to the statewide personnel office, the last ballot will be controlling.

And then to make doubly certain, you might send the second ballot by certified mail or hand deliver it to the accounting office and get a receipt. Documentation of the submission of a second ballot would be useful if any problem occurs.

Coordination Booklet Available

UC-AFT along with other employee organizations investigated the possibility of providing an individual computer service to assist in making the choice of whether to coordinate. There was widespread interest in such a service because the UC "Official Notice" booklet you received in early January was regarded as both inadequate and hopelessly complex.

The consulting actuary we employed after investigating a computer service concluded that the different circumstances facing each UC employee would lead to such complexity that an individual service is not practical, especially in the short time available.

Far more helpful, it was felt, would be information on the general background of Social Security, the factors affecting the future of that system and general guidelines to make a basic decision and a listing of the more specific considerations each person must take into account in making a decision.

Such general assistance is available in a booklet, *UCRS and Social Security*, by Geoffrey Calvert, a noted consulting actuary, and published by the Council of UC Faculty Associations. While we do not endorse Mr. Calvert's conservative judgments about the Social Security system, nonetheless it is a helpful booklet.

Quite frankly, the Faculty Association beat us to the punch in getting out this information in a pamphlet format. Rather than engage in the duplication of much of the same material, we are calling the attention of the entire academic community to this booklet, since the Faculty Association limits their concerns to those who are members of the Academic Senate.

The cost of the pamphlet, *UCRS and Social Security*, is $1.50 (postage included) and may also be ordered by writing directly to the Berkeley Faculty Association, 2490 Channing Way, Berkeley, CA 94704, or to the UCLA Faculty Association, 1019 Gayley Ave., Los Angeles, CA 90024.

Please enclose a check for $1.50 and a 6 x 9 envelope in your letter to speed the mailing.

At the February 2, 1976 meeting of the UCRS Governing Board, Professor Sherman Maisel, Chairman of the University Welfare Committee and a Board member, protested that although the Senate had opportunity for "discussion" there was no "consultation" on the decision or the terms of the coordination plan.

UC-AFT, along with other organizations — mainly the American Federation of State, County and Municipal Employees (AFSCME), and the Berkeley and UCLA Faculty Associations — have been working for the past several months to change certain adverse features of the coordination plan, and with some success. Because the coordination plan was rushed through without adequate opportunity to meet and confer, UC-AFT had to raise the possibility of a court action to block the April vote unless certain changes were made.

AFSCME has in fact gone into court challenging the vote primarily because of the provisions which require a buy-in of 5 years of SS coverage. This may require very large out-of-pocket payments from young, low-paid clerical employees. A hearing on the suit will be held in early May in Los Angeles.

At the March 1976 Regents meeting several improvements were adopted after the protests that certain provisions adversely affected the opportunity to make an unfettered choice and, in fact, would lower existing benefits for some of those who would elect SS. The following changes were made:

1. Buy-in of 5 Years of SS coverage.

Although not required by law, the Regents decided that all those electing SS would have to purchase SS coverage retroactive to January 1971 or to a later date of their employment. The individual's payment would be out of their contributions to UCRS. If there are not sufficient contributions in a person's account, then they would have to put up the additional funds.

This decision was challenged on the grounds that it would require some employees (the so-called non-contributing UCRS members: persons employed between 1967 and 1971 who were under 30 years old did not have to make UCRS contributions until 30 years old) to pay up to $3,326 if they wanted SS coverage.

In addition, UC-AFT pointed out that it is arbitrary to exclude the 3% Regents' special contribution for faculty and the interest on money in a person's UCRS account from money which could be used to purchase SS credit. This primarily affected assistant professors who, depending on date of employment, would have had to pay several hundred dollars if they wanted SS.

The Regents decided to make interest-free loans available to non-contributing UCRS members; and to those who left UC, withdrew their UCRS contributions, and were later re-employed but did not repay the funds withdrawn. It is estimated there may be about 2,500 persons who are in the first category.

It was also decided to make the special 3% contribution and interest available to those members of the Academic Senate who do not have sufficient direct contributions in their accounts. However this will be done only if a person requests it since the use of these funds involves additional taxable income to the employee.

2. Survivor's Benefits.

It was possible for a current member of UCRS who elects SS or the member's survivors to receive lower combined monthly benefits in the event of disability or death than would have been payable under current UCRS without SS.

Now in the event of retirement, or death before retirement, occurring on or between April 1, 1976 and March 31, 1986, the combined UCRS-SS monthly survivor's benefit payable to an eligible spouse, eligible children and dependent parents would not be less than would be paid under present UCRS survivor's income provisions.

3. Disability Benefits.

In the event of disability before retirement occurring between April 1, 1976 and March 31, 1986, the combined UCRS-SS disability benefits payable to a member, spouse, and any eligible children will not be less than under present UCRS provisions.

However, the Regents limited the guarantee of no loss of survivor's or disability benefits to a 10-year period ending March 31, 1986. It also applies only to present UCRS members but not to those employed on or after April 1, 1976 who will be required to have combined UCRS-SS coverage. This guarantee only applies to those children who were living on April 1, 1976, and in the case of a spouse, married to a UCRS member on that date.

The thrust of the changes is to make coordination somewhat more attractive. However the restrictions on the guarantee have been arbitrarily determined and it is one of the changes that must be made after the coordination vote.

Notwithstanding these changes which go only part of the way toward eliminating some of the arbitrary decisions the University made, many questions still remain about the coordination plan and the affect it will have on UCRS, especially from the point of view of those who decide not to coordinate. Here are some of the questions that have been raised and which contribute to the uncertainty about the entire plan:

- How will SS coordination affect the funding of UCRS?
- Is UCRS underfunded at this time?
- Is coordination with Social Security a way to deal with underfunding of UCRS?
- Are UCRS investments mismanaged or so conservatively invested as to deny members the full benefits of their contributions and deferred income?
- Has UC given up more liabilities as measured by the coordinated benefits than it is paying out to SS with the 5-year buy-in and future SS taxes as a way of dealing with UCRS underfunding?
- Why was there so little consideration of alternatives such as rejoining the state's Public Employee Retirement System or maintaining an independent UCRS based on a level of employer contribution equal to what the state puts into PERS?
- Is SS a real benefit in view of the steadily increasing SS taxes?
- Since it is not required by law, why has UC administration required a 5-year buy-in of SS credit?
- Why has the Regents not committed UC to coordinate even if, or especially if, a large number of UC employees elect to go into SS?
- Why has UC not published any actuarial valuation report for 1975, especially since new actuarial assumptions adopted in 1975 would seem to require higher levels of funding?
- Since there are so many unknowns and unanswered questions, why the rush to coordinate?

UC-AFT, along with other employee organizations, asked the University to delay the vote until such time that sufficient information is available so that a person can make an informed choice with better knowledge of the reasons for the coordination. These proposals were rejected.

As an alternative we asked that the University pledge to hold a second vote no later than April 1, 1977. In this way those who are unable to make an informed choice this April will be guaranteed more time and those who are planning or required to retire this year will have an opportunity to elect SS coverage. This, too, was rejected but at the March 1976 Regents meeting President Saxon was given the authority, but not required, to conduct a second election.

Regents Have Not Decided

One of the disturbing things about the coordination decision is that the UCRS Governing Board has never made a formal recommendation for such an action. Apparently the impetus came from the University bureaucracy. And even more disturbing is the fact that neither has the Regents committed themselves to coordinate with SS even after the vote is taken. UCRS members are being asked to make an irrevocable choice, and afterwards the Regents will decide whether or not to coordinate. Of course, there is a presumption that the Regents will approve since there has been a large expenditure in planning and carrying out the vote. But it is by no means assured.

The reasons the Regents have left an escape hatch open were brought out at the October 1975 meeting.

In response to a question by Professor David Wilson, Chairman of the Academic Council, as to why no final and irrevocable decision has been made and what criteria will affect the decision, Vice President Robert Johnson, who is also Chairman of the UCRS Governing Board, replied:

At the risk of being presumptuous, I think we will reach a point where basically the Regents, after the election results, will really want to assess what it is going to cost, what the employee/employer contributions are, what this benefit package looks like as contrasted to UCRS by itself, whether you think it is a good plan for the employees of the University, and in essence, if you decide affirmatively, requiring all new employees to be members of Social Security, and those who elected to be either in or out. But I would presume that there would be that kind of final review again with those major ingredients.

The reason the cost is unknown is that no one knows how many will vote to coordinate. It is assumed that 25-35% will choose SS. But if a substantially greater number elect SS, a number of problems will arise.

First, there is the need for additional state funds UC needs for SS taxes for the larger group. If Governor Brown does not agree, then coordination may not be carried out.

Second, the greater the number who go into SS, the less funds may be available for meeting UCRS's liabilities to those who remain in UCRS alone.

Third, and perhaps most important, is the possibility that a high vote will also result in a disproportionately large number of persons in high-turnover classifications opting for SS. This would

ADDITIONAL RETIREM
IF UCRS MEMBER CO
(Based on perso
UC employment with no So

Retirement Year	Salary at Retirement (3 Year Average)	A Re
1986	$ 16,135	$
1991	21,593	
1996	28,895	
1986	21,514	
1991	28,792	
1996	38,530	
1986	26,893	
1991	35,988	
1996	48,161	
1986	35,857	
1991	47,985	
1996	64,215	
1986	44,822	
1991	59,981	
1996	80,268	
1986	53,786	
1991	71,978	
1996	96,324	
1986	62,751	
1991	83,974	
1996	112,376	

Notes: (1) This table was derived from tables develop
ployees who requested assistance. A rate of int
retirement benefitsd over the 10-year period bee

(2) Table is calculated for UCRS members who
the amounts of additional contributions at each

(3) Current UCRS benefit level for 30 years of se

(4) All projected figures based on following assu
a) University of California Salary Increases:
b) Social Security Wage Base Increases: . . .
c) Consumer Price Indexes Increases: . . . .
d) Social Security tax rate increase to 6.05%
e) UCRS contribution rate stays at 3% for sa

Administrators Can Reap Windfall UCRS Benefits

The fact that most employees do not receive any benefits from their deferred income (employer contributions to UCRS) makes it possible for administrators and supervisors to get super-windfall retirement benefits. Here's how it can happen:

Retirement benefits are computed on the basis of the average of the highest three years earnings. It is assumed that a person's salary will advance at a steady rate over the length of employment, and UCRS contributions follow this steady straight-line upward progression.

However, if toward the end of one's career, a person is promoted to an administrative or supervisory position at a substantially higher salary, then this constant relationship is upset. While a higher UCRS contribution is paid on the higher salary, it is only for a few years. The result is a final three-year average salary which produces retirement benefits far in excess of the higher contributions.

For example, suppose a full professor who now earns $28,000 and expects to retire in 5 years after 30 years employment is appointed a vice-chancellor at $35,000. If we assume a 5% annual increase in salary over the next 5 years, we get these results. The professorial ranked person retires with a three-year average salary of $32,439, and an annual UCRS retirement income of $22,383. However the vice chancellor's three-year average will be $40,549 and the retirement income will be $27,979. For $5,596 higher annual retirement benefits or $55,960 over a 10-year period, the extra contributions will be $7,389.

This is an example where the windfall benefits are the smallest because the vice chancellor position does not receive the special 3% contribution for members of the Academic Senate. If the example involved a faculty member who received an eleven-month salary because of appointment to the Budget Committee, then the windfall would be far greater. It would be larger, too, if it involved a late career supervisory appointment within the staff employee classifications.

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country.

AND CONTRIBUTIONS TH SOCIAL SECURITY

s with 30 years of
prior to UCRS membership)

0 Years Additional etirement Income if pouse Qualifies for 50% of SS Benefits	Additional Contributions
$ 58,086	$ 3,000
80,974	5,400
113,846	8,500
66,263	4,000
90,119	7,200
119,443	11,300
68,846	3,800
92,489	6,500
127,145	8,600
67,770	2,450
90,692	3,600
123,293	5,200
67,233	600
88,172	800
120,402	1,400
65,619	-1,200
87,093	-2,100
117,515	-4,700
65,261	-2,600
76,416	-4,900
103,386	-9,200

ornia in January 1976 to assist counselors in advising em-
d into the additional contributions, nor has the additional
e Index increases.

% faculty contribution. There are only slight variations in
tive special contribution.

year average salary.

. . . . . 6% per year
. . . . . 5% per year
. . . . . 4% per year
45% in 1986
d 5% for salaries above wage base

create a serious funding problem for UCRS because the system depends, as do almost all private pension plans, on the fact that large numbers, in fact the overwhelming majority, never receive any retirement benefits.

An employee, of course, gets back his or her own contributions plus the modest 4% interest when leaving UC. But the employee rarely has any vesting rights to the UC contribution which remains in UCRS to fund the benefits of those who stay until retirement. This is one of the most inequitable features of private plans, which, unlike SS, typically deny persons a major portion of their deferred income.

Coordination Discouraged

It is possible, of course, for a person upon leaving UC employment not to withdraw his or her contributions, and thus have a claim for retirement benefits at a later age based on a limited period of employment. However very few do so, and this practice is part of the assumptions used to calculate the level of contribution needed to fund retirement benefits of those who stay to retirement age. If short-term employees in very large numbers did not completely withdraw from UCRS it would literally bankrupt the system unless contribution levels were increased substantially.

It is a characteristic of retirement systems in which employees do not have fully vested rights to the employer contributions that when they leave employment their deferred income (employer contributions) remains in the system and is used to fund the benefits of those who stay to retirement age. This is the reason that UCRS is an excellent value for those who reap its benefits, and why the present value of benefits (for retirees) exceeds member contributions by ratios of up to seven to one and sometimes even more.

This arrangement is necessary to fund the kind of super-windfall retirement benefits which UCRS bestows on those who move into supervisory or administrative positions late in their careers. (See box.)

It is suspected, therefore, that some of the features of the coordination plan were designed to discourage a large coordination vote. For example, the 5-year buy-in which requires large out-of-pocket payments from younger and low-paid employees tends to discourage a coordination vote. Even the interest free loan offer is small help to a low-paid person.

There is a similar problem in the way that some of the restrictions on disability and survivor's benefits were removed. The fact that this no loss of benefits is limited to a 10-year period and to those who are already spouses and children may also tend to discourage younger persons from electing SS.

Furthermore, as pointed out in the next section, for many, if not most, employees, there is a real cost advantage to coordinated coverage. Nonetheless, the University has not presented this information in such a way as to point out these advantages.

The Decision to Coordinate

The decision on whether to coordinate is very much a personal one. Aside from a judgment about the future direction of the SS and how additional revenue will be raised, there are factors specific to each individual.

The decision, however, starts with a comparison of the additional contributions you must make (if any) to the additional benefits received. The table in the center-fold is but one example of this cost-benefit comparison based on 30 years UC employment and no previous SS coverage. It shows that at every level of current salaries, there is a very substantial advantage to coordinating. In addition SS income is not taxable and you also receive Medicare coverage, currently worth $44 a month. The general relationship shown in this table holds for retirement based on less UC service, too.

The main characteristic of this comparison is that amount of additional retirement income is roughly similar for all income levels while the additional contributions are highest for the lowest salaries. This is because those who make up to the present SS tax base of $15,300 will be paying an additional 1.75% of their salary. Then the percentage drops sharply until about $28,100. Above this level, it actually costs you less to coordinate than if you remain in UCRS alone.

The comparison shows that for those who are up to 20 years away from retirement, the basic structure of coordination is favorable, and only slightly less favorable if you are 25 or 30 years away from retirement. This is because the SS benefit structure has a social income purpose in that it provides a greater ratio of benefits to contributions for those who have low earnings. As a result SS is particularly advantageous for those who first enter the system in mid-career. It is ironic that those at the highest incomes derive the greatest windfall benefits from a provision to benefit low-income persons.

Once the basic cost-benefit ratio is established, then you must look at your own situation and make a calculation (rough at best) whether other circumstances substantially reduce the advantage. Among the factors to consider are the following:

1. Pre-UC or outside employment SS coverage.

SS coverage from previous employment or the expectation of outside earnings while at UC may establish minimum SS eligibility without coordinating. Since this may be sufficient to qualify for minimum retirement benefits and at minimum extra contributions, it may not be advantageous to coordinate.

Under current law, there are several types of SS coverage depending on periods of covered employment.

The first and most important is "fully insured" for which you may need up to 40 quarters of coverage. Those born after 1929 will need this maximum but if you are 62 in 1976 you will need only 25 quarters; in 1977, 26 quarters are needed, and so on. Only if "fully insured" may you collect retirement income, dependent benefits coverage, survivor's benefits for spouse or dependent parent. However, the level of benefits depends on average earnings over the required quarters of coverage.

You have "currently insured" status after 6 quarters of coverage in the 13 quarters just prior to the quarter of death, disability, or upon reaching age 62. This status provides only survivor's benefits for spouse with an eligible child, your children and the lump sum death benefit.

Claiming Back SS Taxes

If you decide to coordinate, and if you had outside income from 1971 for which you paid SS taxes, you can claim a refund on all of these taxes for the 5-year buy-in period.

Originally it was thought, and reported in the "Official Notice," that a SS tax rebate could be claimed only for three years.

This claim must be filed any time within two years of the effective date of coordination, and IRS form 843 must be filed for each of the years for which you claim back taxes.

It will be necessary for those for whom this is an important consideration to make the calculations based on their own circumstances. It is estimated, for example, that if a person at age 65 has outside earnings at a level of one half of the maximum tax base, then he or she will be eligible for benefits of about 67% of the maximum. As a result, if a person's UC salary today is at or above the tax base of $15,300 the effect of this is to reduce the advantages of coordinating. At the higher salary levels it may actually result in a smaller retirement income than if you do not coordinate, depending on the level of outside earnings, and complete offsetting the reduced contribution you make if you coordinate. (The Calvert booklet has a handy way to make this calculation.)

For those whose outside earnings are taxed at the higher self-employment rate, it is probably advantageous to coordinate. In this way you are taxed at the lower employee rate and can claim rebates on the self-employment taxes.

2. Coverage through spouse's employment.

It may be possible to get SS benefits as the spouse of a person who has SS coverage as the result of his or her employment. Even though spouse benefits are only 50% of SS retirement income, it may be advantageous not to coordinate. The decision will depend on the respective ages and incomes. If the ages are close and both incomes at or above the SS tax base, there may be a slight advantage not to coordinate. This advantage increases the farther you are from retirement. However, this can be a risky choice if your marriage dissolves.s

3. Post-retirement income.

Under present law you can earn up to $2,760 after retirement in 1976 without any loss of retirement income. This will increase in the future because it is indexed to average covered earnings. However, for each $2 you make above that figure, you lose $1 of SS benefits. After age 72, there is no loss of benefits.

If you expect to have significant post-retirement taxable earnings, then there might be an advantage not to coordinate. But there is considerable pressure to raise the permissable earning level which in turn will reduce the disadvantage.

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Why Are They Leaving Social Security?

In recent months there has been a flurry of articles about government agencies leaving or giving notice of intent to withdraw from Social Security — New York City, Los Angeles, San Diego, San Jose, Alaska.

The SS taxes are rising so rapidly, it is argued, that substantial money can be saved, and at the same time even raise retirement benefits by leaving. If this is so, they why is UC moving to coordinate?

Public agencies contemplating such a move are concerned about immediate costs and how to reduce them, and not about a fair retirement system for all its employees. But how can they both cut costs and increase benefits? Simple.

Under SS, *all* employees acquire full benefits (and even more) from their and the employer's contributions. SS is both fully portable and fully vested. However, in the typical non-federal system, only a minority ever receive benefits because they leave before acquiring vested rights in the employer's contributions. Their deferred income remains in the system to fund the benefits of those who retire.

It is possible, therefore, for a public agency to leave SS, put some of the savings into improving the retirement, disability and survivors' benefits and still have a net saving. The catch is that only a minority benefits from this sleight of hand.

There may seem to be some short-range advantages to this move if there are a large number of employees who have acquired enough quarters of credit during the period of SS coverage to be "fully insured," and therefore eligible for at least minimum benefits. They will be getting the benefit of the "social insurance" feature of SS which gives greater retirement benefiis tax relative to contributions to low income persons. However they only appear low income because of the limited period of SS coverage. Soon the disadvantages will emerge, especially for the new employees who are denied SS, and who will not be able to get it as long as they are employed by the agency.

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Official Information Notice on the proposed coordination of UCRS with Social Security

University of California Retirement System

Dilemma or Real Choice

University of California

Short Term

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